RICHARD RUSSELL'S **DOW THEORY LETTERS, INC.**

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April 23, 1980 **LETTER 781**

April 11, DJIA 791.55; PTI 1113; A-D Ratio –23.45
April 18, DJIA 763.40; PTI 1091; A-D Ratio –24.06

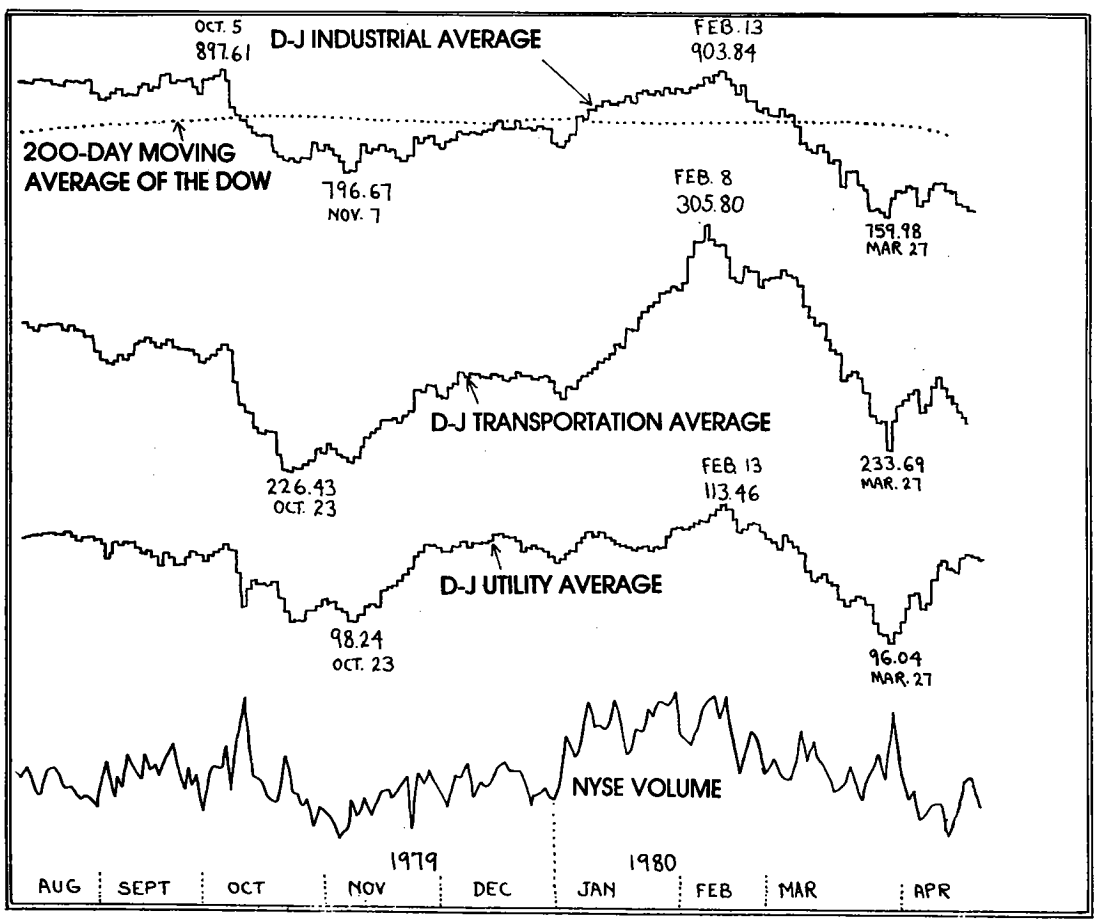
BANG: If we haven't seen the turn to the upside in the bond market, then the action of the last few weeks will do until the real thing comes along. If you didn't lock in yields of around 14% in two and three-year T-notes and if you didn't go out to 1985-87 on a few T-bonds, don't blame me. It was all carefully spelled out for you in the "Front Page Comments" of the last Letter. The week ending April 18 saw one of the biggest surges in bonds (and money market instruments) in history. In a phrase, the juicy super-yields of yesterday are gone (even though today's yields are still high and attractive).

BOUNCE: During February and March almost everything that wasn't nailed down hit the skids. Down went the market, bonds, commodities, precious metals, home prices, you name it. When a rubber ball is dropped from a height, it bounces. That's what markets do too.

In the last Letter (Front Page Comments) I stated that I thought the recent Dow low of 759.98 could hold for a while, but I was not enthusiastic about any big, profitable rally during the spring and summer months. Furthermore, I felt that the stock market was backing-and-filling, pausing and using up time—all preparatory to a renewed smash during the late-summer or fall. My rising cycle (see "Prevailing Cycle" section in this report) will tend to help the market in whatever rallying phase it can muster over the next few months. But the up-cycle tops out in August. Therefore, the less impressive the market looks between here and August, the worse the outlook for Wall Street when the cycle tops out and finally turns down (during August to October or November).

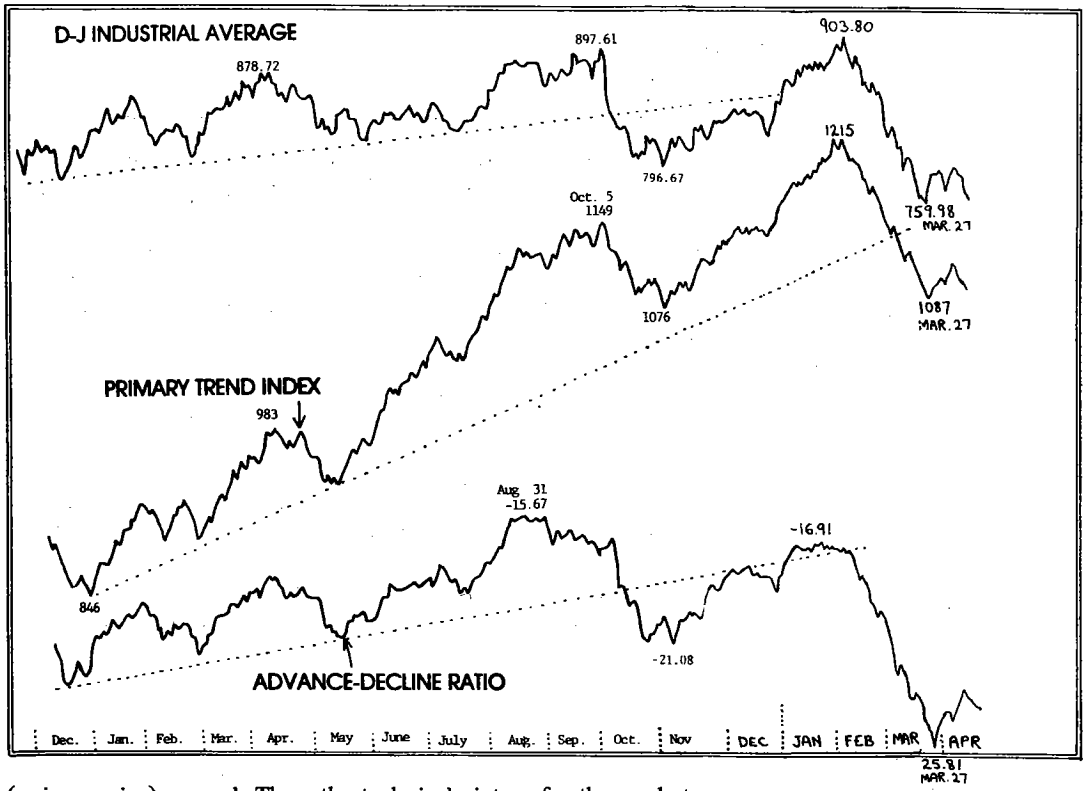
Interest rates have peaked. This is not (contrary to what you might think) triumphant news for the stock market. A study of history shows that all interest peaks since 1920 have been followed by market declines. And some of those declines have been whoppers. Ned Davis of J.C.Bradford published a study of the interest rate peaks of 1960, 1966, 1970, 1973 and 1974. His statistics show that the average change in the Dow FOLLOWING the peak in interest rates was minus 14%. The average elapsed time from the interest rate peak to the final Dow low was 4.1 months with the shortest lag being 2.5 months in 1973 and the longest lag being 9.5 months in 1960.

In Letter 779 I include a chart showing that all the major bond market declines since 1916 have been *followed* by stock market declines of greater percentages (greater percentages than the bond declines). Since the recent bond market decline surpassed 30%, the implication is that we could face a further drastic stock market slide. My guess is that it is coming. It will come—but not when it suits everyone's convenience—remember the old adage: "The stock market always does what it is supposed to—**but never when!**"



People today are looking for action. Vegas and Atlantic City are booming (even if the gambling stocks are not). But the stock market could not care less, and (as always) it will express itself in its own good time. Personally, I feel that we have a little wait before the wind of excitement blows across Wall Street again. That is the reason why I wrote the "Making Money, Keeping Money" section in this Letter; please read it carefully.

Meanwhile, the March 27 lows of 759.98 for Industrials, 233.69 for Transports and 96.04 for Utilities have held. The odd-lot transactions (having reached their lowest rate of selling on April 9) are now moving towards higher selling. This is positive for the market. On the other hand, my ratio of the specialists' shorts to the odd-lot shorts remains in neutral



(unimpressive) ground. Thus, the technical picture for the market remains uninteresting.

The market is, however, set up for some potential downside non-confirmations. The 759.98 (Industrials) and 233.69 (Transports) lows should be watched on any weakness, since a breaking of one without the other could signal downside resistance. Certainly the recent surge in Utilities implies downside resistance. As this is written I see a market that is displaying resistance on the downside, yet it is a market that shows little real rallying ability.

The picture is clarified on the chart of the Primary Trend Index (PTI) and the A-D ratio. For the benefit of new subscribers, the PTI is my own indicator; it is an amalgam of 8 critical averages and indices. A *persistent* advance or decline in the PTI always identifies the main, underlying trend of the market.

Following the March 27 low, the PTI managed a rally of only 28 points. It then flopped back listlessly. It's obviously going to take more time before the PTI "makes up its mind" about what is happening. What I'm looking for is a persistent PTI trend, either above the April 11 high or to new lows.

The A-D ratio, following its April 11 peak, has shown definite *resistance* to decline. Therefore, I will be watching the A-D carefully from this point on. A new low in the Dow (below 759.98) without a confirming new low on the A-D ratio could spark some life in this market.

Conclusion: Same as that presented in the last Letter. I believe the market is groping for a low. Also I feel the market is trying to draw some "suckers" in here. I suspect a rallying phase perhaps into May-June, then some reaction, but in general an attempt (by the market) to hang on until late-July or August. Then my "up cycle" peaks. During September to November we could have an all-out smash on Wall Street. I'll stay with my 14% return on the T-notes.

Ominous Thought: Is it a coincidence that my up-cycle peaks around the end-of-July, August, which is when the *Olympic games end?* I've said before that *if* the Russians go into Iran, they'll do it AFTER the Olympics. If the Ruskies "go for it" in Iran, the market will smash. Will the Russians march into Iran? I don't know, you don't know, only the Russians know (and they probably haven't made up their minds about it at this point).

Question: Did your "Bottom Indicator" as shown in Letter 779 get down to the long-awaited bottom zone during the March market plunge?

Answer: It did not. Now the indicator has rallied, and it will require a new and severe sell-off to drive this bottom indicator down into the panic zone, a zone which also indicates that the stock market is moving into a major (and historic) bottom. It is at these bottoms that investors can buy with the maximum degree of safety and potential profitability.

Question: We are now in another contraction-cycle for the economy. Do you think that the Government and the Fed, following this recession cycle, will be able to get the economy going again on one of its inflationary "booms?" Or do you think we are moving to the end of the whole super-cycle?

Answer: Today, the economy is more illiquid than ever, and my own feeling is that the odds are about 50/50 that the Government can squeeze one more inflationary pop out of this economy. Actually, it is pointless to guess about such things, and we might just as well wait (in a liquid and protected position) to see how the current unwinding works out. Look at it this way: never in history have investors been paid so much (in terms of short-term, safe, interest rates) to sit and see how the economic show develops.

Question: Do you think interest rates have topped out?

Answer: Yes, but I'm not at all convinced that interest rates are going to plunge as they have in previous cycles. First, the dollar turned weak almost the minute the short-term rates turned down. The dollar is still an invalid, and one of the major items holding the dollar up is higher interest rates. Therefore, there is a limit to how far interest rates can fall this time around. Second, few people are taking the illiquidity problem into consideration. If the economy tumbles there will be a long list of corporations in trouble. A lot of them will attempt to *borrow to stay alive.* This is going to mean pressure on the money markets. Furthermore, Government deficits are going to require vast new sums of money. This too is going to put pressure on the money markets.

Finally, the whole concept of the longer term bond market is now in question. Many large investors have decided never again to buy bonds of maturities of more than 10 years. This means that an increasing amount of financing will have to be done in the short-term market. Thus the interest rate picture is going to

be violent and tricky. I personally will not buy and sit with long-term bonds. I'll sit with two and maybe three year Treasury notes. I'll speculate with bonds out to 1985-87. And that's about it.

Question: Tell me more about your basic money market fears.

Answer: My most basic fear is this. There is $5.5 trillion dollars of debt in the US, and I'm talking about consumer debt, Government debt, municipal debt, mortgage debt, corporate debt. Somewhere ahead (perhaps in this down-cycle, I don't know) a primary bear market is going to get out-of-control. The US Government and the Fed will not be able to turn it around. At that time as profits collapse, vast amounts of debt are going to be unserviceable, moving towards bankruptcy.

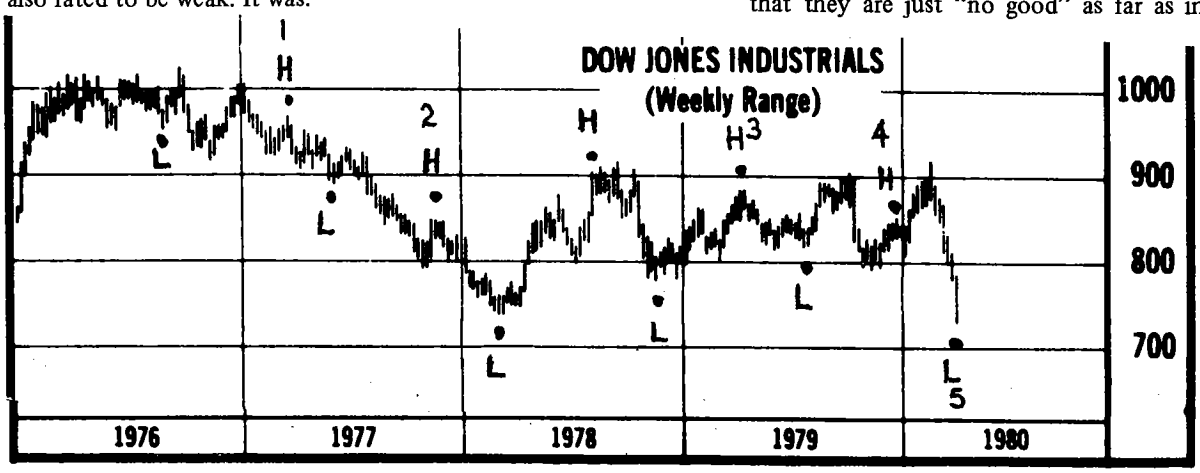
When that happens, I can envision the greatest debt panic in history. Huge chunks of debt (bonds) will be thrown on the market for whatever price they will bring. The discount (in terms of prices) on these endangered and illiquid bonds will be enormous, unbelievable. And interest rates (particularly on bonds of less than Aaa ratings) will rise to staggering new highs.

This will be the money market panic that finally destroys the concept of giant deficit spending and the "borrowing society." This will be the period of the great unwinding, the dismantling of the debt pyramid. I think the bond panics of 1979 and 1980 were simply forerunners of this coming debt smash, just as I believe the three stock market panics of 1978, 1979 and 1980 were forerunners of the coming final bear market smash in the stock market.

PREVAILING CYCLE: Just as the human body is subject to innumerable cycles (breathing, heart beat, menstruation, cycle of waking and sleeping), the stock market too is subject to cycles.

Working with Fibonacci numbers, I have been following a cycle (composed of a bull and a bear phase) which requires approximately 233 days to complete. I have shown this cycle on the accompanying chart. The H's identify the cycle peaks, the L's denote the cycle lows. I have found the implications of the 233-day cycle to be very helpful in dealing with this market.

Note that the rally from the 1976 cycle low to the early-1977 high (H-1) was very weak. This implied that the next down-cycle would be severe. And the drop from H-1 in 1976 to the mid-1976 low (L) was severe. The next up-cycle from the mid-1977 low to the late-1977 high (H-2) was extremely weak. This implied again that the ensuing down-cycle to early-1978 was also fated to be weak. It was.



The 1978 up-cycle was normal in all respects, a powerful rise, then a rather bearish down-cycle to late-1978. The up-cycle to early 1979 (H-3) was weak, failing to take the Dow above the previous cycle high. The down-cycle to mid-1979 was normal. But the up-cycle to late-1979 was extremely weak, ending at H-4. Note (and this is extremely significant) that the H-4 cycle peak was below the H-3 cycle peak, and H-3 in turn was below the mid-1978 cycle peak. Each up-cycle was weaker than the preceding.

Then came the fooler. Instead of declining after H-4, the Dow rallied to a new high above 900 in early 1980. At this point I was tempted to throw my whole cycle study out. But suddenly, the down-cycle took hold and the Dow crashed from the February peak of 903 to the March low of 759. The down cycle (as stated in the last Letter) was scheduled to end in late-March as shown on the chart.

What happens next? If my cycle pattern holds true, the peak for the current up-cycle should occur around mid-August. Therefore, it will be crucially important to note **how the market acts between now and August.** If the action during the coming span is poor, if the Dow cannot get above say 825 or 850, then we can expect very weak action during the final months of the year (from August on). It was the weak up-cycles during 1976 and 1977 that forecast the strong down cycles which took the Dow down to an ultimate low of 742 in February, 1978. Thus, the action of the market over the next 4 months will give us strong hints as to what's ahead for late-1980 and even 1981.

MAKING MONEY, KEEPING MONEY: Like everyone who is in his own business, I do a lot of thinking about this industry, about my subscribers, and about other men and women who own other advisory services.

First of all, this is not really a competitive business. If people want to read what I (as an advisor) write, they will subscribe to Dow Theory Letters. But they will not necessarily drop the one or two other services they read. A good percentage of my subscribers read two, three or more services. Many institutions and wealthy investors subscribe to dozens of market services. I read at least 30 stock, bond, commodity and economic reports each week–plus 5 daily newspapers and Lord knows how many magazines (I am a magazine-a-holic).

One thing I've noted is that remarkably few people in the advisory business make any real money for themselves in the markets! Why is this? Well, many advisors don't buy stocks at all; they feel they have a large enough stake in the markets without putting their own savings on the line too. Others know that they are just "no good" as far as investing or speculating is concerned (and that doesn't mean that they can't put out helpful advisories). But for the most part, I believe the real reason that most advisors don't make real money in the markets is that they think and act the way they write. That's another way of saying that the advisors tend to be

short-term speculators. And in case you weren't aware of it, the great majority of speculators are unsuccessful.

I'll add a caveat to the last sentence. Most advisors don't understand the basic principles of investing, they don't understand the principles of risk/reward, and they don't understand money.

Unfortunately, the typical market letter judges itself on the basis of how many minor market turns it can "call" for its subscribers. This is the way many advisors attempt to show that they can outshine their competition. In examining many advisory publications over the years, I would say that the average report spends (and you can be the judge of this) 1/2 to 2/3 of its time discussing the latest three week market pop and why you should have bought GM here and sold it there. It's a sure ticket to "lean city." In the end, playing all the trends will wear you out, wear your wallet out, and ultimately leave you staring in the mirror at another sadder-but-wiser Wall Street loser.

In writing these Letters, I always have risk-reward in mind when I advise subscribers to make a move. If the risk in a market action isn't minimal, if it can't be limited, and if the potential reward in that same move isn't very substantial, then it isn't worth the risk, the trouble, the sweat and the worry. This is a crucial point to remember, and it applies to every transaction you'll ever make in the markets.

In a recent mailing, R.E. McMaster ("Reaper," PO Box 39026, Phoenix, Ariz. 85069) talks about the "psychological price" of carrying an investment or a trading position. Did you ever stop to think that every position you take in the market exacts an energy toll, a **psychological price?** Buy 500 shares of MMM, buy $200,000 of 1985 Treasury bonds, buy a single contract of June gold, and I'll guarantee you'll think about that purchase at least 5 times every day. If you start showing paper losses, you'll think about it 20 times a day. That's all part of the psychological price you pay for a position. And it can be a mighty high price.

I find that if I start sweating over a position, then that position is not worth it. And I sell out. No position, in my mind, is worth wringing my hands over. No position is worth getting sick over. Investments are supposed to help you, not wear you out. If you find yourself perspiring, losing your appetite, thinking 15 or 50 times about what you've done or should have done in the market, get out. You're killing yourself over a position that was probably ill-conceived in the first place.

The great assets in this business are stability, patience, and an *ability to see yourself, your investments and the market in PERSPECTIVE.* Let me put it this way. I'm not looking to "sweat out" a potential 50 or 75 point rally in the Dow. I'm not ready to jump in when the market looks "all right, I guess" or when "just a few things bother me about my position." I want an intelligent risk/reward situation before I swap my hard-earned, after tax dollars for stock certificates or bonds or gold bullion or anything else. And today, when I can get 14% and up on all kinds of safe, short-term money instruments, I sure don't want to shoot craps for maybe a 10% or 15% rally in the stock market. The risk/reward, the return **if everything works out right**–just isn't there.

A study just released shows that the average return on all pension funds over the last 5 years was 10.8%. These funds are managed by professionals, people paid to handle money intelligently. Yet today, T-bills are paying more than the pension fund managers can produce on average. Doesn't that tell you something about risk-reward today? If it doesn't, you're reading the wrong advisory, and you're ready for the racing "green sheet."

I think most of my readers understand this line of reasoning–or at least they are beginning to. This is the way of operating that I follow myself; it's what I teach my own kids, and it's what I learned the hard way over 25 years of investing. I know this is a difficult business, and most advisors believe (or hope) that they are helping their subscribers when they talk about playing a "50 point rally" or "loading up for a rally to the top of a trading range." I don't see it that way, I don't operate that way, I can't sleep with that kind of a position. And if I can't sleep with it, I won't do it!

NOTES & QUOTES: Last week I received the authoritative Bank Credit Analyst for April (1010 Sherbrooke St., West, Montreal, Canada H3A, 2R7). Here are a few excerpts from the April issue: The debit/loan ratio is "now revealing the worst cyclical squeeze in the post-war period". . . . Already, the speculative bubble built up over the last few years has shown convincing signs of having burst. . . . As the economy slows and eventually falls, corporations will face a major deterioration in their financial position and will have to reduce their inventories, their labor force and the capital spending to generate an improvement. Such contractionary efforts will spread throughout the economy and lead to a significant squeeze on corporate profits... The dramatic squeeze underway in other developed economies as well as the poor countries will ensure that the economic contraction ahead will be global in nature and synchronized. Therefore it will be deep and prolonged.....The stage is set for a real washout of the inflationary bubble."

Believe me, that's strong language for the usually circumspect Bank Credit Analyst!

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The US bill for oil imports will jump from last year's $60 billion to $85 billion this year. How long can this continue? The US, one way or another, is going to cut back on oil (it may take much higher gas prices or a depression to do it).

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I recommend two cash reserve funds for smaller accounts (where money can be kept in lieu of Treasury bills). The first is Capital Preservation, 459 Hamilton Ave., Palo Alto, CA 94301. The second is Fund for Government Investors, 1735 K Street, NW, Washington, DC 20006. Both of these funds invest only in Government paper, but the Fund for Gov. Inv. invests both in bills and (largely) in the paper of Government Agencies. Capital Pres. invests in T-bills only.

For large amounts of money ($10,000 to $50,000 and over) I recommend direct purchase of Treasury bills. Oh yes, in a recent Letter I stated that T-bills are like cash, and they are perfectly safe if purchased through a bank or brokerage firm. Strike that. Since T-bills are transacted via check (cleared through a bank), they are not like cash. Only cash is like cash. In other words, the weak link in the T-bill chain is that you buy them and get your money back via bank check.

Second, when you buy T-bills directly through the Fed (which is a tedious process) you are taking the smallest risk. However, if you want to sell a portion of your Fed-purchased T-bill or if you want to redeem before the expiration date, forget it. The mess you go through with the Fed is not worth it. Not so with a brokerage house-purchased T-bill. I have sold portions of a large purchase and received a check from the brokerage house the next day.

HOWEVER, brokerage house T-bills are bought en masse by the brokerage house in the broker's name. If the house goes under, you're going to have some trouble. So make sure you pick a very solvent, conservative brokerage house. If you buy T-bills through a bank, you can open a custodial account at the bank and place the bills in that account. The custodial account should be separate from bank assets, so that if anything "goes wrong" at the bank, it is their disaster, not yours.

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Here are two FREE pamphlets that every serious investor should send for. The first is the "Compound Interest Tables" by Union Carbide, 270 Park Ave., NYC, NY 10017. Spend a few hours studying these tables. They tell you about the "eighth wonder of the world," compounding interest on your money!

The second pamphlet is "Your Guide to Mutual Funds Without Sales Charges" put out by the No-load Mutual Fund Assoc., Valley Forge, PA 19481. This useful publication lists dozens of no-load funds with addresses, purchase and redemption requirements, assets, investment objectives. It's very handy to have, and for nothing how can you resist this one!

* *

When I first started including these little run-downs, the national debt was approaching $800 billion. Here is the latest at $866 billion. Coming soon, our first $1 trillion! Note the February interest at $5.47 billion. Our total interest on the debt will be near $70 billion for 1980 or well over $1 billion a week. Now how do you support that kind of habit if you have a severe recession and Government receipts drop off sharply? That's the question with no answer.

Government Finances

WASHINGTON (AP) – Here are the figures on government spending and debt (last six digits are omitted) as of April 9:

Total public debt	866,240
Interest on public debt for Feb.	5,475
Int.fiscal year through Feb.	30,387
Budget deficit for Feb.	9,346
Budget deficit for Feb. last year	5,100
Budget deficit fiscal 1979	27,700
Estimated deficit fiscal 1980	39,754
Outlays fiscal year	233,855
Outlays same period year before	202,052
Gold for Feb.	11,172

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From our "I'm Proud to Pay My Taxes" Dept.:

WASHINGTON (AP) — The government has spent $36 million on new furniture in the past four months despite a freeze on purchases that was intended to force federal agencies to use furniture stored in warehouses, a Florida senator said yesterday.

"We have a freeze that's not a freeze," complained Sen. Lawton Chiles, D-Fla., chairman of a Senate Governmental Affairs subcommittee.

WASHINGTON—The Energy Department was forced to destroy 8 million copies of fuel economy guides last year because they were produced with the wrong covers, costing the taxpayers at least $500,000, the department's inspector general said Monday.

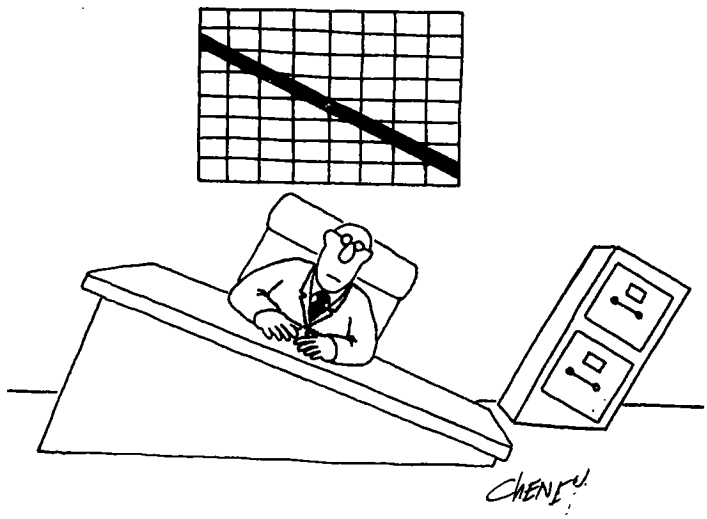
The government sends the booklets listing gasoline mileage for new cars to automobile dealers for display in their showrooms and distribution to customers.

* *

Problem Solved: My apologies for all the inconveniences caused by the chart book up-date problem. I am going ahead with the printing of the 1979 pages for the D-J Averages and the A-D ratio chart books; send in your check for $2 for each page desired. I still offer the D-J Averages chart book, a hard cover volume with a large page for each year going back to 1885. All the daily price action of the D-J Industrials, Transports, Utilities, and Bonds are shown together with daily volume and notation regarding historic events of the times. This is a priceless record of the US markets and I offer it for a price of $55 (we pay the postage, unless it is overseas). Sadly, I am out of the A-D ratio chart book, and I will not reprint this, but I will continue to offer up-dated pages each year.

* *

I don't know why, but this untitled New Yorker cartoon struck me as very funny. Is this bland little fellow the "doom-and-gloomer" that all the bulls complain about? At any rate, the cartoon might be entitled, "Bearish–across the board".



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Easterners aren't hip to this, but in the West guns are still a way of life. Sign of the times: I note that Mossburg shotguns ("police riot guns") are for sale all over San Diego at this time. These weapons are being used for home defense, and they are superlethal. I estimate that hundreds of Mossburgs are now being sold in San Diego County. I include a typical San Diego ad from today's paper:

RIOT SHOTGUNS
NEW Mossberg, , 8 shot Police Shotguns
REG $192.50 SALE $139

NEW AMMO
No Brass Deposit Required
45 CAL...$4.95 357 CAL...$9.95
9 MM CAL....$9.95 38...$8.95
SMITH WESSON model 41... Spec $294
THE GUN COMPANY 276-2201

GOLD, SILVER: I'm no chemist, and I'm no photography expert. But I know something about the silver market. One of the things I know is that film is the place where the largest amount of silver is used. If this new film (see clip below) is good, it's going to hit silver hard. So subscribers who are hoarding the silver bags and bars, be careful!

Energy Conversion's Film That Contains No Silver to Be Sold

By a WALL STREET JOURNAL *Staff Reporter*

TROY, Mich.–Energy Conversion Devices Inc. said a film it developed for the printing industry that doesn't contain any silver will be marketed by Agfa-Gevaert Inc. in the U.S. later this year. The announcement comes less than a week after Minnesota Mining & Manufacturing Co. announced its plans to begin marketing a similar kind of film in this country in the next few months.

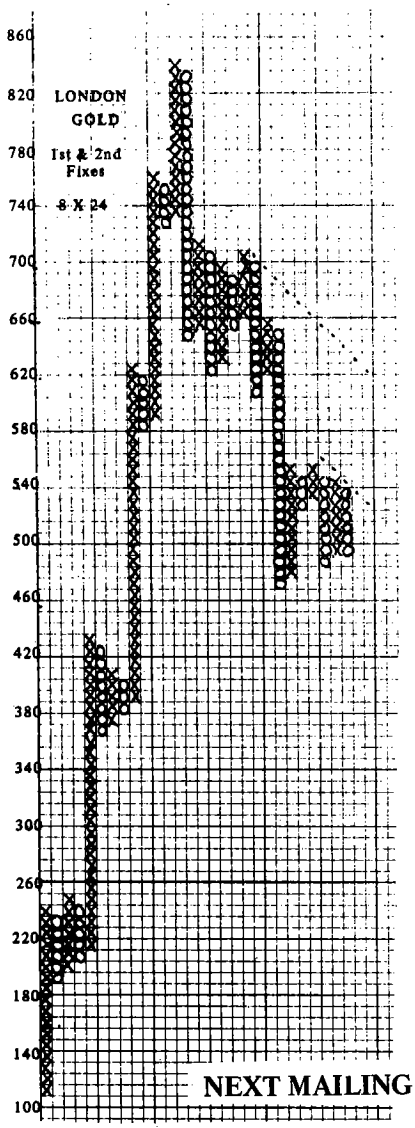
Energy Conversion Devices said the new film, called Rapi-Lux, is less expensive than conventional silver halide film. The company said Agfa-Gevaert has a nonexclusive license to market the film in the U.S.

It's now fashionable to say that the machinations of "those Hunt brothers" toppled the silver market, and the crashing silver market took everything else down with it. To which I say, "rubbish." The precious metals (and all the other markets) were technically weak, and silver happened to be the most vulnerable market. If silver had been technically **strong**, the Hunts could have run their margins to the moon (which they almost did) and the metal would have continued to rise. Of course, **greed** also had

something to do with it (maybe that's why the name is Hunt instead of Satisfied or Content).

If nothing else, the action of the metals during 1980 has shown us that gold is far stronger than silver. At its recent low, silver has lost almost (an incredible) 80% of its peak value. Gold has retained a bit more than 50% of its peak value.

The point & figure chart of gold (1st and 2nd London fixes) is an 8 x 24 chart. This means that each box on the chart represents 8 points and only rallies or declines of 24 points or more are depicted (x's are rallies, o's are declines).



NEXT MAILING: May 7th

Gold broke down to the 476 box, thereby touching (almost to the point) the 50% level of the entire 103 to 850 bull market advance. From the critical halfway level, gold rallied to the 556 box. All the action of the past few months has been contained within the 476 to 556 zone.

I feel there are two forces exerting themselves on gold. On the bear side there is the force of deflation, as reflected in ebbing business, consumer distress, monetary pressure, illiquidity. On the bull side there is the smell of saber-rattling, military threats , war. Why is this bullish for gold? It's bullish because war means spending, deficits, waste, fear, people crossing borders and gold crossing palms.

Which force will control gold, which force will propel gold out of its current tight formation? If I had to guess (and in this business people insist that you guess) I'd say that the bear forces are going to be the winners, at least for a while.

There is a third force which will influence gold. And this is the "force" of disinterest, exasperation, boredom. It's a force that often comes following a high-velocity, speculative top such as the one we saw when gold went up to 850 early this year. Once an item (any item) crashes from its speculative top, there is usually a long period of low-volume milling about and erosion as former holders become disgusted and sell. And of course trendlessness goes with disinterest. New buyers will become scarcer as gold sits within its trading range.

My 5-week exponential moving average of gold is now 529, 36 points below the 13-week MA which stands at 565. The still-rising long-term or 50-week MA for gold is 456. The spread between the 5-week and the 13-week MA has now stopped widening, and this means that the downward momentum in gold has halted. The next impulse in gold should be important. At this point, fluctuations in the metal are simmering down to a few points or so per day.

LATE NOTES: The technical position of the stock market has reached a fascinating juncture. On March 18 the A-D line for the 30 Dow stocks broke to a new low for the past 6 years (down to its low of early-1975). This implies a potentially very weak Dow, a Dow that could ultimately test its 1974 low of 577. On a near-term basis, however, the March 27 low of 759.98 should be watched. Breaking this, the Dow would begin to confirm its own very weak A-D line.

The Transport low of 233.69 must also be watched in case of further weakness. If both the Industrials and Transports break their March 27 lows it will be up to the NYSE A-D ratio to hold the line. By the next Letter, we should know the verdict. The PTI is now only 4 points above its March 27 low, and one more weak day would take this indicator to a new low. In all, not a very inspiring picture.

Also a problem is the continued low level of specialist shorts to odd-lot shorts. On the latest figures (week ending April 4), specialists shorted 6.3 thousand shares whereas odd-lotters shorted only 3.6 thousand shares. Thus, the knowledgeable specialists shorted almost twice as many shorts as the inept odd-lotters. Good bottoms are usually formed in just the opposite manner, with odd-lotters shorting twice (or more) as many shorts as the specialists. IF the market is attempting to bottom here (even on a temporary basis), I don't see it as a profitable bottom.

I'm also watching some of the shocking action of individual stocks, and I must say that I don't like it. Ford has now broken below its 1974 bear market low. GM is hitting new lows and is back to its 1975 range. Mighty IBM hit its high of 91 in 1973, hit a peak of 80 in 1979, is at the 51 area as I write this. The airlines are breaking down badly, with many approaching their 1974 lows (Braniff, Eastern, PanAm, American, TWA). Burroughs is heading for its '74 low. Federated Dept. Stores is just above its '74 low, JC Penney has broken its '74 low as has Kodak. When a stock breaks below its preceding major bear market low, it is a very bearish sign. It's an indication of a fundamental sickness. Far too many important stocks are now in this danger area.

What do we do? We do just what the sick corporations have (for the most part) failed to do. We stay liquid.